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In the Supreme Court of the United States

OCTOBER TERM, 1966

No. 785

GEORGE H. BUTTERFIELD, SR.,

Petitioner,

v.

THE PLASTIC CONTACT LENS COMPANY, a corporation,

Respondent.

On Petition for Writ of Certiorari to the United States Court of Appeals for the Ninth Circuit

PETITIONER'S REPLY BRIEF TO RESPONDENT'S BRIEF IN OPPOSITION

COLLINS MASON,
811 West Seventh Street,
Los Angeles, California 90017,
R. R. BULLIVANT,
DOUGLAS G. HOUSER,
527 Pacific Building,
Portland, Oregon 97204,
Attorneys for Petitioner.

STEVENS-NESS LAW PUB. CO., PORTLAND, ORE. 12-66

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ARGUMENT

Respondent's brief employs the same diversionary argument which, petitioner submits, led the Court of Appeals below to reject the amply supported findings of the trial court, and unduly to stretch the rationale of *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.*, 339 U.S. 827 (1950), by sanctioning a patent royalty practice which this Court has repeatedly held to be in violation of the antitrust laws.

THE SCOPE OF THE PATENTS

Disregarding its many distortions and misstatements of the record, which it is not deemed necessary here to point out, respondent's argument seeks to focus this Court's attention on peripheral considerations of patent interpretation which long since have been concluded between the parties by the Consent Judgment in the prior patent action (R. 11-14, F. 22 Appendix D to the Petition for Writ of Certiorari, pages 49a to 50a).

The only extent to which the peripheral element of patent scope is here at all relevant is whether respondent's Tuohy patent covers petitioner's lens or whether petitioner's Butterfield patent covers respondent's lens, and that question long since has been concluded by the aforementioned Consent Judgment in the former patent action between these parties. The trial court below merely fortified the accuracy of that conclusion by pointing out that the new item of prior art before said court for the first time in any litigation, Pl. Ex. 68; R. 476, shows both patents to be for relatively different improvements in an old art. Nevertheless, in respondent's attempt to divert the Court's attention from the real question involved, its brief devotes its argument to those peripheral questions.

It is believed sufficient to point out that neither of the cases mentioned at page 2 of respondent's brief involved the lens of petitioner's patent; and that the

only case involving a claim that respondent's patent covers petitioner's lens was concluded in the negative by the before mentioned consent judgment. Respondent appears to contend that all contact lenses are within the scope of its patent but such a contention is obviously false and rebutted by the record.

It is important to note, on the question of patent scope raised by respondent, that *both* the trial judge in his well considered Findings of Fact and the Ninth Circuit Court of Appeals in its opinion defined the respective scope of each patent essentially the same.

Said the trial judge as to Butterfield (R. 107-108; F. 7(b), Appendix D to Petition for Writ of Certiorari, pages 38a-39a):

> "The Butterfield lens is also substantially parabolic on its concave side, so that it follows closely the shape of the cornea. . . . This relationship to the cornea is brought about by the concave surface of the lens being defined by at least two concentric curves of relatively different radii of curvature. The lens of the Butterfield Patent is known in the trade as the 'bi-curve conforming type.'"

The Ninth Circuit Court of Appeals opinion said (Appendix D to Petition for Writ of Certiorari, page 21a):

> ". . . the finally acquired Butterfield patent generally discloses a contact lens with two or more concentric curves on the inner surface, designed to conform to the eye's underlying curvature throughout the area covered by the lens."

As to Tuohy, the trial judge said (R. 108; F. 7 (c), Appendix D to Petition for Writ of Certiorari, page 40a):

> "The Tuohy Patent, on the other hand, describes and claims a lens whose concave surface is defined by a single spherical curve of a radius 'flatter,' or of sufficiently longer radius than that of the cornea so as to provide a gradually increasing clearance or tear space between the lens and cornea radially outwardly from the center."

As to Tuohy, the Ninth Circuit Court of Appeals opinion said (Appendix D to Petition for Writ of Certiorari, page 20a):

> "The Tuohy patent calls for a contact lens which, on its inner surface, has a curve of greater radius than the portion of the eye which it covers. This is to provide 'a small but gradually increasing clearance' between the lens and the tissue of the eye, thus allowing for lubrication which is claimed to be desirable."

Thus, respondent's contention that its patent is a "pioneer" and entitled to a liberal construction is immaterial for although the trial judge and the appellate court below disagreed on whether respondent's patent was a "pioneer," both the trial judge and the appellate court agreed on the scope of the patents. The two types of lenses are separate and distinct.

THE WIDESPREAD TRADE USE OF THE BUTTERFIELD-TYPE LENSES

The widespread trade use of the Butterfield-type lens is well established by the findings and evidence, both in the form of trade witnesses (R. 129; F. 44-45; Appendix D to Petition for Writ of Certiorari, pages 60a-69a) and trade literature (Pl. Ex. 104A to 104Y, R. 372). Plastic licensees holding no Butterfield license and many others made Butterfield-type lenses in large volume (R. 108, 147-148, 148; F. 8, 62, 63; Appendix D to Petition for Writ of Certiorari, pages 40a-41a, 93a and 93a, respectively). Respondent is even a licensee under petitioner's Butterfield patent having purchased a license from petitioner for $50,000 in 1960 (R. 111, F. 14, Appendix D to Petition for Writ of Certiorari, page 44a).

RESPONDENT HAS FAILED TO JUSTIFY ITS ILLEGAL ROYALTY BASE

The only respect in which respondent's brief challenges the record facts supporting the "question presented" is the conclusionary statement at page 3 that respondent's accused royalty practice was justified by accounting difficulties, as to which the record is silent except as to the statement by one witness to the effect that one cannot tell the fitting relationship of a particular corneal lens to a particular cornea without knowing the specification of both. That is true of course, but what respondent's brief fails to point out

is that that is not the way fitting relationships are determined. Those from whom respondent exacts the accused royalty make lenses from doctors' prescriptions containing the corneal specifications.

No suggestion appears in the record why it was not feasible for respondent to exclude from its license base and reporting forms those quantities of unfinished and uncut lenses which are ordinary articles of commerce and which could not fall under the teachings of any patent, for which no prescription interpretation would be required to differentiate between finished and unfinished lenses. Respondent's report forms (see for example Pl. Ex. 101c, d, and e, R. 257) (Pl. Ex. 101c is set forth at App. p. 2a) obviously make no attempt at such a distinction but simply require a report from the licensee on the total number of lens devices sold irrespective of type or finished state.

Nor is there any evidentiary showing that any of those unpatented and unfinished pieces of lens material were required to be sold by the licensees with the condition that they could only be made into lenses covered by the Tuohy patent. Therefore, respondent cannot claim that it is entitled to collect royalty for those unpatented materials under the provisions of the patent statute relating to contributory infringement (35 U.S.C. § 271(c). See App., page 1a).

Respondent's brief also mentions that it made a reduction of the royalty rate when adopting the accused practice. However, except for the exception made in the *Automatic* case, supra, under the extra-

ordinary circumstances there involved, this Court has uniformly held that no patentee may exact any royalty on any product not covered by the patent.

Mercoid Corp. v. *Mid-Continent Investment Co.*, 320 U.S. 661 (1944); and

B. B. Chemical Co. v. *Ellis*, 314 U.S. 495 (1942).

Respondent's statement that its licensees "voluntarily" accepted a substitution of the license agreement containing the accused royalty base in lieu of the previous license contract calling for royalties only on corneal contact lenses covered by respondent's patent does not carry conviction when one reads the deceptive background history of respondent's patent licensing program as set forth in the Opinion of the United States Court of Appeals for the Seventh Circuit in *Solex Laboratories, Inc.* v. *Plastic Contact Lens Co.*, 268 F.2d 637 (1959), which opinion shows that respondent's predecessor in ownership of the Tuohy patent had deceived the industry into believing that the Tuohy patent covers all corneal contact lenses.

Furthermore, any such contention is irrelevant to the issue presented as any pretended acquiescence by respondent's licensees in the use of respondent's illegal royalty base does not excuse illegal trade restraint and in no way diminishes the damage to the public which the applicable antitrust legislation is intended to avoid. Respondent's contention suggests the existence of a conspiracy between it and its licensees causing substantial damage to the petitioner, other competitors in the trade and the public at large.

Respondent apparently seeks to create the false impression that this is a private dispute when in fact the issues raised by this Petition for Writ of Certiorari vitally affect the public and the entire contact lens industry.

RESPONDENT'S ATTACK ON THE BUTTERFIELD LICENSE AGREEMENTS AND ROYALTY BASE IS WITHOUT MERIT

In an attempt to justify its royalty base, which the trial court found to be illegal, respondent attacks the different formulas found in petitioner's license agreements which are in the record as parts of Plaintiff's Ex. 117 (R. 131). The trial court found, after an examination of the evidence, that the agreements are not in accord with respondent's contentions concerning them (R. 144, F. 57(c); Appendix D to Petition for Writ of Certiorari, page 89a) and that they did not require payment of a unitary royalty based on all lenses handled or to be handled by the licensee.

These agreements fell into three categories, one of which consisted of three licensees of petitioner, Titmus, Utah Optical, and Southern Contact Lens, all of whom held license agreements from petitioner prior to the settlement of the former litigation between the parties in April, 1962. These three agreements did not call for payment of a royalty based on five per cent of the gross sales of all lenses by the licensee. Instead, as appears from the Titmus agreement in Ex. 117, the five per cent of sales was limited to sales of petitioner's lenses by the following in

Par. 3 (Payments): "royalty of five percent (5%) of the gross sales price of all corneal contact lenses *coming within the claims of the above mentioned patent.*" As a part of the settlement each of these licensees obtained a free Tuohy license from respondent and was hence in a position to manufacture either Tuohy or Butterfield lenses without payment of double royalties.

The next class is the so-called "paid-up" license form. An example is the Vision Clear agreement in Ex. 117. In such agreements the licensee pays in cash or in monthly installments a flat total aggregate sum which on the face of the license agreement bears no formula relationship to past, present or future sales of the licensee or the number of units handled by it. Petitioner testified, without contradiction (Tr. 284-6), that his practice in arriving at the amount required to be paid is to ascertain the volume of the prospective licensee in the previous year, obtain a monthly average from this and multiply this by 37½¢ per lens. This monthly rate is then applied for determining the total royalty for the remainder of the life of the patent and the monthly payments or the total aggregate payment remain precisely the same whether the licensee's volume increases or decreases or completely terminates. Petitioner testified at Tr. 285:

> "Instead of charging them a dollar a pair or fifty cents, we discount it thirty-seven and a half percent so to allow for any lenses that they might make that might not come under my patent."

The third type is a unitary type which calls for

payment of a royalty at the rate of fifty cents per lens on lenses made under the teachings of the Butterfield patent. An example is the Frontier Contact Lens license in Ex. 117, which covers a royalty of "50 cents (50¢) for each corneal contact lens * * * *embodying the invention of said letters patent.*"

In any event, the record is undisputed that, as to all of petitioner's licensees he has provided them with a rubber stamp to be placed on invoices accompanying sales of unfinished lenses, requiring that the lenses sold by the licensee be finished only in accord with the Butterfield patent (R. 145; F. 57(c)(iv); Appendix D to Petition for Writ of Certiorari, pages 90a-91a). Some of petitioner's license agreements contain similar provisions. See, e.g., the above described Frontier Contact Lens form which provides in part:

"2. Licensee hereby agrees:

* * * * *

"e. in the event the licensee shall sell any of said corneal contact lenses in an unfinished state to be subsequently finished in accordance with the invention of said letters patent, licensee agrees to display on the envelope or container thereof the following printed notice:

"'To be finished only in accordance with United States Letters Patent No. 2,544,246 and Canadian Letters Patent No. 487,880.'"

As to the so-called "paid-up" license agreement forms of petitioner, the record is likewise clear and uncontradicted that petitioner, before soliciting a man-

ufacturer, first determined, by the purchase of sample lenses, that the manufacturer was making a Butterfield type of lens (R. 128-129; F. 43; Appendix D to Petition for Writ of Certiorari at pages 67a-68a) and that the licensee's future operations are in no manner geared to a royalty based upon his future volume (R. 144-145; F. 57(c)(ii); Appendix D to Petition for Writ of Certiorari, at pages 89a-90a).

The trial court found and held, on the basis of oral and documentary evidence from trade witnesses, that respondent's accused conduct substantially restricted competition in interstate commerce, and petitioner submits that the appellate court below acted erroneously in disregarding those findings in the absence of contrary evidence.

CONCLUSION

Petitioner therefore respectfully submits that his petition should be granted, and that the public interest cries out for a clarification of the rationale of the *Automatic Radio Mfg. Co.* v. *Hazeltine Research, Inc.* case, supra.

Respectfully submitted,

COLLINS MASON,
811 West Seventh Street
Los Angeles, California 90017,
R. R. BULLIVANT,
DOUGLAS G. HOUSER,
527 Pacific Building,
Portland, Oregon 97204,
Attorneys for Petitioner.

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APPLICABLE STATUTE

35 U.S.C. 271(c) provides:

"Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer."

PLAINTIFF'S EXHIBIT 101-C

LICENSEE ROYALTY REPORT*

To: The Plastic Contact Lens Company
37 South Wabash Avenue
Chicago 3, Illinois

Atten: William E. McGovern

Enclosed is monthly report and payment of royalty on lenses sold for the period beginning December 1, 1961 and ending December 31, 1961.

		Royalty Price	Payment
Number of lenses (devices) manufactured & sold	398		
Number of lenses (devices) returned for credit	12		
Net number of lenses (devices) manufactured & sold	386		

From: _____

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*Immaterial, illegible portions not reproduced.